



# UBCM Group Benefits Plan

PLANNING TO GO  
OUT TO MARKET

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CONSULTING



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# GOING OUT TO MARKET FOR YOUR GROUP BENEFITS PLAN?

## CONSIDER A POOLED ARRANGEMENT

***Not Happy with Your Current Renewal Rates?*** When it comes time to renew your employees benefit plan, an unreasonable increase in premiums might have you wondering whether or not you are better off going out to market and possibly changing your insurance provider.

**What most brokers and/or insurance agents aren't going to tell you is that this can end up working against you.**

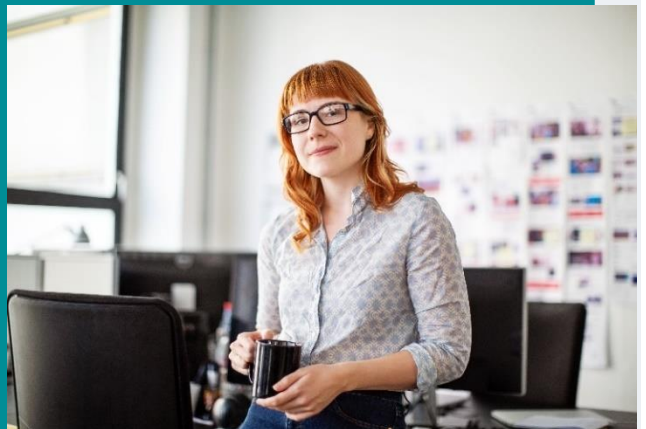
Changing from one insurer to another often changes nothing and can make things worse for you as an employer. —no insurance company is in the business of losing money for an extended period!

*There are many factors that go into an annual benefit renewal, the biggest of which are:*

- claims experience,
- insurer trend and utilization,
- claims reserves,
- administration expenses,
- demographics and credibility

Each insurance company has their own methodology for setting renewal rates and addressing these factors. That is why it is important to *avoid* looking at each of these factors individually – they must be considered together.

**What are Some of the Longer-Term Solutions to This Problem?**



## Advantages of Belonging to a Pooled Arrangement

Many employers are not aware of the advantages of a "pooled arrangement" when going to market to purchase an employee benefit plan.

A pooled arrangement can often be the better option. The concept of a pooled arrangement is that a group of similar organizations support each other during high and low claiming years to keep premiums stable and affordable because not everybody has high claims at the same time. Insurance is about risk sharing, the risk being an unexpected financial loss. The larger the group, the more predictable the loss and therefore the lower the risk.

There will always be winners and losers. It's kind of a fundamental principle, but chances are that today's winners will be tomorrow's losers.

The key is to find a well-managed pool where risks within the pool are prudently managed. Members with high claims should be managed and should pay more over time.

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## Better Plan Designs and Elevated Service Standards

The *UBCM Group Benefits Plan* is a "pooled arrangement" with dedicated, experienced staff and strong support from our actuarial benefit consultants. Participating organizations and their employees benefit from the *Service Performance Agreement* negotiated on their behalf with the insurance company ensuring accountability and service commitment.

Economies of scale and the ability to spread the risk ensures that insurance companies provide employers in pooled arrangements with the ability to offer employees better coverage and plan design options that they could not obtain on their own.

The *UBCM Group Benefits Plan* combines our member employers into a single unit creating a very large buying group that is able to obtain better rates and is better represented by insurance experts that negotiate pricing and plan design on their behalf.

## What is your Target Loss Ratio and Why is it Important?

The larger the group the more bargaining power for lower premiums and higher loss ratios. When a competing broker/insurance agent tries to attract your business, they generally lead with very low premiums, usually secured with a guarantee for at least a year, or even more.

What they may not explain is that in the end you always end up paying the actual cost of claims so lower “discounted” initial premiums can lead to higher premium increases in subsequent years.

It's great to get that cheaper deal the first year, but once you start making claims the insurance company will want to recover and you can expect higher premiums to follow.

*As example, let's say you paid a total of \$10,000 annual premium for your Extended Health Benefit and had \$12,000 in claims. You could be faced with a 30% increase in premiums with your current insurance company simply because they lost money on your plan.*

*If you moved your employee benefit plan to another company and the annual premium becomes \$8,000 while you are still making \$12,000 worth of claims, your benefit premium increase could be as high as 50%. Where they cut upfront, they make up for on the back end later.*

By pooling your group benefits (*such as under [UBCM Group Benefits Plan](#)*) you lower the expense factor that the insurer charges. That is, the amount of administration costs in order to administer and underwrite your plan is reduced through economies of scale.

The metric that is used to measure this is called a **target loss ratio (TLR)**, and it represents the amount of your premium that is used to pay claims, with the remainder being used to pay your insurer and/or agent.

Any amount in excess of the TLR will result in the insurance company losing money and you can expect a premium increase at your annual renewal. When trying to gain your business, one thing many insurance agents would definitely

keep their distance from discussing is the target loss ratio of your group plan.

Many insurance companies do not disclose it in the quote to the agent, the agent will need to ask for it.

***Another example***, let's say you spend a dollar in premium for extended health claim and perhaps due to your small size the insurance company wants 30% for administration costs, agent commission, premium tax and a percentage for profit. It is expressed as a 70% TLR. So for every dollar you pay in premium you can only spend \$0.70 on claims and the insurance company keeps the rest, \$0.30.

A small company paying \$5,000 a year in premium can only spend \$3,500 on health claims after which you would see an increase in premiums.

If an agent tries to convince you to buy solely on price, their interest is to get you in the “door” without taking into consideration your specific needs or claiming history. A professional agent will give you an employee benefit plan that works for you and your staff so you can avoid any unpleasant surprises at renewal time.

## **IN SUMMARY**

If you are going out to market you should consider all your options including potential advantages of joining a group pooled arrangement.

Remember UBCM is always available to answer questions and provide advice even if you are not a member of the [UBCM Group Benefits Plan](#). We exist to advocate, support and represent all BC local governments.

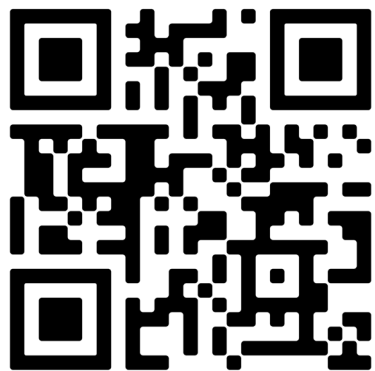
**Contact UBCM to find out more at:** [groupbenefitsplan@ubcm.ca](mailto:groupbenefitsplan@ubcm.ca)

# UBCM

Union of BC  
Municipalities



## UBCM Group Benefits Plan



SCAN ME

Your **TRUSTED PARTNER** with over 30 years in Benefit Administration, UBCM is here to answer questions, offer **ASSISTANCE** and **ADVOCATE** on behalf of all of our Members.